King County

KING COUNTY INVESTMENT POOL NEWSLETTER

Volume 13, Number 11 November-2008

Portfolio Breakdown

The following is a breakdown of the Investment Pool holdings for November 2008

	Average ($000)	% of Portfolio
U.S. Agency Securities	3,286,026	69.7%
Commercial Paper	-	0.0%
Taxable Municipal Securities	17,335	0.4%
Bankers Acceptances	-	0.0%
U.S. Agency Mortgage-backed Securities	71,506	1.5%
Repurchase Agreements	47,033	1.0%
Treasury Securities	475,478	10.1%
Certificates of Deposit	416,143	8.8%
Local Government Investment Pool	403,045	8.5%
Reverse Repurchase Agreements	-	0.0%
Total	$4,716,566	

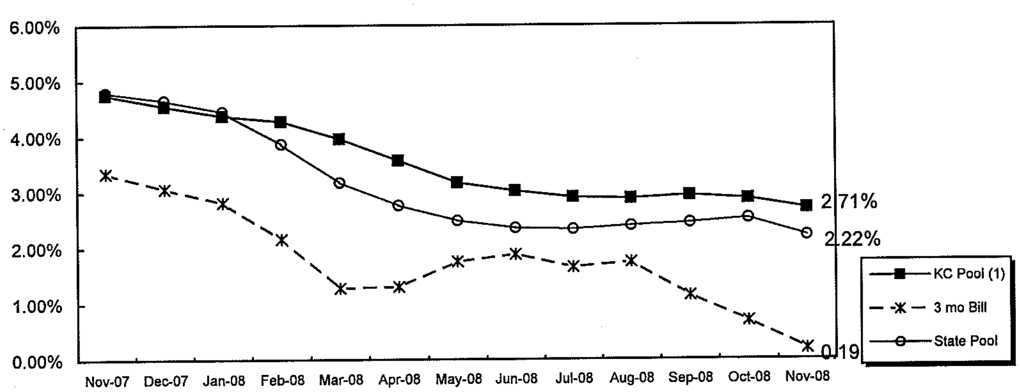
*Average Pool Effective Duration: 0.47 Years

*Duration is a measure of the length of the portfolio's expected cash flows and is a better measure of average portfolio life than maturity.

King County Pool Rating

In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. Three of four restructurings have been completed in 2008 with one remaining in early 2009. King County has initiated discussions with S&P to restore the pool's AAA rating and anticipates action in early 2009.

Investment Pool Performance (before Pool fees)



(1) King County Pool Distribution rate has not been adjusted yet for realized losses from impaired commercial paper investments.

Pool Net Asset Fair Value on November 30, 2008

Net Assets (2)	4,532,381,823.02
Net Assets Consist of:	
Participant units outstanding ($1.00 par)	4,504,400,519.60
Undistributed and unrealized gains(losses)	27,981,303.42
Net Assets	4,532,381,823.02
Net asset value at fair value price per share ($4,532,381,823.02 divided by $4,504,400,519.60 units)	1.0062

(2) Excludes impaired assets that have been separated into a separate pool.

Performing Pool Comments: **The majority of the portfolio is in short-term discount notes in US agency obligations, and we have slightly increased our exposure to US Treasury securities. Our investment financial consultant, Public Financial Management (PFM) continues to view the senior debt of Fannie Mae and Freddie Mac as an appropriate investment for public investment pools. The federal government has established substantial support arrangements for the two agencies and federal officials have used strong language to communicate their support. The federal government has also stepped in to supply capital infusions to banks that they believe critical to the economy and financially viable. We are following their actions and at this time we are only placing deposits with banks that have received government support.**

PFM concurs with our approach to maintain the effective duration of the pool at about six months and our continued acquisitions of short term US agency senior debt obligations, US Treasuries, and federally supported banks. PFM's latest quarterly portfolio review of the County's investment pool for November 2008 can now be found at the "related links" on the Treasury web site at: http://www.kingcounty.gov/operations/Finance/news/CommercialPaper.aspx.

The performing pool has no exposures to impaired investments. Specifically, there are no exposures to WaMu, AIG, Lehman's, Merrill, auction rate securities or others recently in the news. Note that the impaired pool has one remaining impaired commercial paper investment (Victoria) that is awaiting restructuring in early 2009 (see discussion on page 2).

We monitor market conditions daily and frequently check in with PFM on trends and changing conditions. We strongly believe we are well positioned to weather upcoming financial storms and our short-term approach will enable us to quickly set a new direction, if necessary.

King County remains committed to sharing information with pool members about investment holdings and the impacts of the current turmoil in global credit markets. Please call the Treasury Operations number at 206-296-7326 if you have questions or need any additional information.

Impaired Pool Holdings Report
11/30/2008

Commercial Paper Issuer	Status	Current Book Value	Estimated Future Cash Recovery	Estimated Future Unrealized Loss
Mainsail II (1)	Restructured	3,022,926.58	782,000.00	2,240,926.58
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	1,885,308.88	1,134,600.00	750,708.89
Victoria Finance (2)	Restructuring In Progress	52,879,463.00	18,655,000.00	34,224,463.00
	Total	58,575,200.60	21,079,350.00	37,495,850.61

Fair Value Ratio	0.3599

(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be as long as 2014 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance restructuring is not complete. Using market price to estimate cash recovery and unrealized loss.

Impaired Pool Comments: The King County Executive Finance Committee approved bifurcation of the investment pool so that the impaired investments would be in their own pool separate from the main pool of "performing" investments. The effective date of the bifurcation was September 1, 2008 (this date was selected based on input from pool members). The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments; and (4) expedite the restoration of the Standard & Poor's rating for the performing pool.

The vast majority of the amount remaining bifurcated as of November 30th is associated with Victoria, the one investment waiting for restructuring. Not yet reflected in the figures above is an initial cash distribution of about $8 million involving Victoria that the pool received on December 23rd. Note that this initial cash payment represents about a 15% reduction of our total exposure to Victoria; this payment will be reflected in the December 2008 pool report. The payment represents a return of the cash that has built up from the underlying assets and will reduce the amount of the required retainage for impaired investments for each fund in the pool. The restructuring of Victoria is expected to occur sometime in the first half of 2009. Because of the turmoil in the financial markets and the US Treasuries decision not to use TARP funds to purchase mortgage securities, we have seen the market price for Victoria deteriorate. However, reports from our financial advisor, Cairn Capital, and Victoria's trustee suggest that the intrinsic value of the underlying securities within Victoria appears to be stronger than the current market price reflects.

There are also "tail" payments from the other three completed restructurings (Cheyne, Rhinebridge and Mainsail) that will remain bifurcated until such time that we receive future cash payments and convert the remaining unrealized losses into realized losses.